

12 Internationalisation of SMEs (Dimension 10) in the Western Balkans and Turkey

This chapter provides a thorough assessment of small and medium-sized enterprise (SME) internationalisation policies across the Western Balkans and Turkey region. It begins with an explanation of the assessment framework and a comparison with the last cycle's scores. The chapter then presents the key findings on the regional level. It then analyses the three sub-dimensions of Dimension 10: The chapter assesses 1) export promotion activities across the region and the economy's export environment, identifying the main deterrents for exports; 2) economies' efforts to integrate SMEs into global value chains and create linkages between SMEs and multinational enterprises; 3) policies promoting the use of e-commerce across the region. Each sub-dimension concludes with a set of targeted recommendations and presents applicable good practice examples for further guidance.

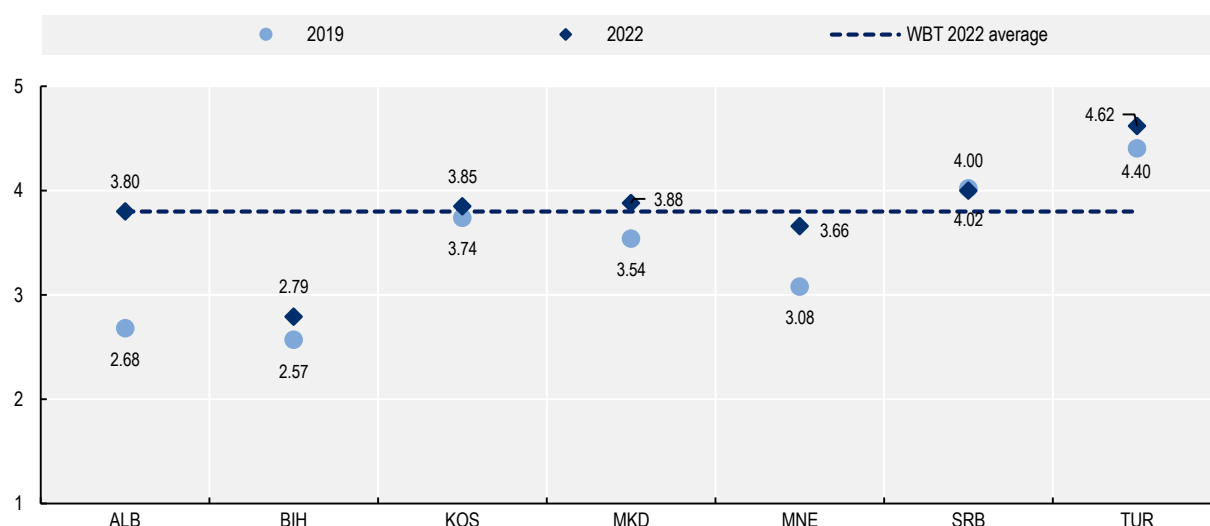
Key findings

- **Export promotion is highlighted in all of the SME-specific strategic documents in the Western Balkans and Turkey region.** All economies have included broad support for increasing the volume of exports, as well as for improving their complexity and sophistication by shifting to higher value-added activities.
- **With the exception of Montenegro, all WBT economies have export promotion agencies, although with varying mandates.** While Montenegro is the only economy where export promotion is directly under the purview of the Directorate of Competitiveness Enhancement in the Ministry of Economic Development, there are several economies where SME development agencies are responsible for programme implementation in relation to internationalisation. KOSGEB in Turkey and KIESA in Kosovo have far-reaching mandates to govern broad SME support, not only in the area of export promotion.
- **Centralised export promotion portals are not prevalent across the region.** In many economies, the governments inform SMEs about available export support through government portals or various project websites, causing a fragmentation of information sources.
- **All WBT economies included support for SME integration into global value chains through increased SME-foreign direct investment linkages and indirect exports.** The governments aim for increased SME participation in global value chains (GVCs) through fostering SME-multinational enterprise (MNE) linkages and integrating local SMEs into supplier networks of domestically operating MNEs. Almost all economies introduced either supplier development programmes to improve the supplier quality within the economy or instruments to better connect domestic SMEs with potential investors and MNEs.
- **Four of the assessed economies have advanced considerably in the area of cluster formation and development.** The governments of Albania, Bosnia and Herzegovina, Kosovo, and Montenegro have implemented cluster development programmes and intensified their institutional support for industrial groupings by boosting financial and non-financial incentives for SMEs with cluster potential.
- **While the majority of economies have a basic legal framework that governs e-commerce, the regulatory infrastructure is largely lacking across the region.** A few economies have improved the harmonisation of their legal environment in line with to EU directives and further strengthened consumer protection and cybersecurity; however, Bosnia and Herzegovina and Montenegro have neither a proper legal framework governing the adoption of e-commerce nor an entity overseeing it.
- **Despite underdeveloped legal structures, almost all assessed economies have introduced e-commerce initiatives since the last assessment cycle.** The Western Balkans and Turkey (WBT) region have advanced in programme implementation in the area of promoting e-commerce, which is largely due to new government initiatives, which prioritise digitalisation and provide support for SMEs to digitalise their activities and integrate into online sales channels.

Comparison with the 2019 assessment scores

With the exception of Serbia, all economies have improved their scores since the last assessment cycle. Due to the adoption of new strategic documents promoting SME development focused on export promotion and integration into GVCs, many economies saw a boost in their scores. The economies in the region have overall improved in programme implementation, introducing new support services and projects with the goal of increasing the export capacity of SMEs. Furthermore, there were considerable advancements across the region in promoting cluster formation and development and improving the suppliers' base. While many economies advanced in the area of adopting and promoting e-commerce practices, there remains room for improvement in developing a sound legislative environment (Figure 12.1).

Figure 12.1 Overall scores for Dimension 10 (2019 and 2022)



Notes: WBT: Western Balkans and Turkey. Despite the introduction of questions and expanded questions to better gauge the actual state of play and monitor new trends in respective policy areas, scores for 2022 remain largely comparable to those for 2019. For a detailed overview of policy changes and to compare performance over time, the reader should focus on the narrative parts of the report. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Implementation of the SME Policy Index's 2019 recommendations

Table 12.1 summarises progress on the key recommendations for this dimension since the previous assessment.

Table 12.1 Implementation of the SME Policy Index's 2019 recommendations for Dimension 10 in the Western Balkans and Turkey

| Regional 2019 recommendation | SME Policy Index 2022 | |
|--|--|--------------------------|
| | Main developments during the assessment period | Regional progress status |
| Increase the human and financial capacity of export promotion agencies to provide more effective support to SMEs | Progress has been made in boosting numbers of employees in export and investment promotion agencies across the region. AIDA in Albania and KIESA in Kosovo added new staff, reinforcing their respective agencies' capacities. In Albania, Bosnia and Herzegovina – at both the state level and in the Federation of Bosnia and Herzegovina, and Kosovo, agencies faced reductions in some of their budget lines as the funds were directed to mitigate the effects of the COVID-19 pandemic. The number of employees and the agencies' budgets vary considerably across the region. | Moderate |
| Boost export promotion agencies' efforts to monitor their programmes comprehensively, and assess their impact transparently | The efforts to monitor export promotion programmes across the region are uneven, albeit having improved since the last assessment cycle. Albania, Kosovo, Montenegro and Turkey have all reinforced their monitoring and evaluation of export promotion schemes. Albania committed to making adjustments in programme design based on received feedback, Kosovo further advanced its monitoring and transparency efforts digitalising export promotion services, and Montenegro set key performance indicators to assess the effectiveness of strategic initiatives. However, monitoring and evaluation remain weak in most economies, as they lack independent reviews and measurable targets. | Moderate |
| Intensify efforts to raise awareness among SMEs of the opportunities associated with participating in global value chains | Incomplete information about foreign markets has been a long-standing challenge in the Western Balkans and Turkey region; however, some economies have undertaken sound initiatives to raise SMEs' awareness about opportunities to integrate into global value chains (GVCs). Most notably, North Macedonia has introduced the Macedonian Suppliers Business Portal, an initiative to promote local SME suppliers on a global scale, which also provides comprehensive information on SME participation in GVCs. Kosovo's Matching Grants Programme also serves an informational role for SMEs aiming to further integrate into GVCs and provides adequate training. In Bosnia and Herzegovina, Republika Srpska launched a Suppliers Database project, which facilitates finding business partners for domestic and foreign companies. Nevertheless, portals where SMEs could learn about GVC opportunities are not evenly widespread across the region. | Moderate |
| Implement programmes to enhance supplier quality of SMEs | Almost all economies strive to enhance the quality of domestic suppliers, having included it in their strategic documents. Serbia and Turkey have made the most noteworthy progress in implementing supplier development programmes, while Albania, North Macedonia and Republika Srpska have intensified their efforts to increase the connectivity of domestic SMEs by introducing business-to-business matchmaking platforms or a suppliers directory. | Strong |
| Design cluster development programmes carefully | In all Western Balkans and Turkey economies, industrial clustering is mentioned and encouraged in strategic documents. Albania, Bosnia and Herzegovina, Kosovo and Montenegro have all advanced in their cluster formation and development efforts by establishing cluster development programmes. According to the Global Competitiveness Report, the state of cluster development is best perceived in Turkey and Serbia, due to their institutional and strategic frameworks, which are conducive to SME groupings. | Strong |
| Develop and strengthen formal support mechanisms to encourage SME uptake of e-commerce | While e-commerce is promoted in all Western Balkans and Turkey economies, only a few economies have a legal infrastructure in place to support it. Albania, Kosovo, North Macedonia, Serbia and Turkey all have a varying degree of a regulatory framework for the promotion and e-commerce; Bosnia and Herzegovina and Montenegro do not have an operational legal structure to govern e-commerce, which hinders any efforts to increase the SMEs' adoption and uptake of digital trade practices that have proven to be particularly beneficial during the COVID-19 pandemic. | Limited |
| Establish mechanisms to periodically evaluate and update regulatory frameworks | Albania, Montenegro and Turkey have reinforced their evaluation mechanisms for internationalisation strategies by setting measurable targets in strategic documents, including various stakeholders in the policy design process and inviting an independent institution to perform a regulatory and programme review. Turkey also introduced a formalised evaluation system based on SME feedback collection during the support programmes' implementation. Nevertheless, performance-based impact assessments are still not prevalent across the region. | Moderate |

Introduction

The Western Balkans and Turkey economies all rely on international trade as the driver for economic growth. Given SMEs' contribution to the region's output and employment, their importance cannot be overlooked. An environment that is conducive to business and foreign expansion is crucial for SMEs to embark on internationalisation activities. However, SMEs in the region still face numerous obstacles in their efforts to export and integrate into GVCs. Administrative hurdles, lack of export capacity, hindered access to finance and a low-quality narrow export base can all contribute to hampered internationalisation and increased inwardness of businesses, especially in the post-COVID recovery period. Due to their smaller size and more limited resources, SMEs are more prone to rely on the government for support in expanding beyond their local consumer base.

To promote an export-oriented strategic focus among domestic SMEs, as well as help them integrate into GVCs and adopt e-commerce practices, the governments have an array of effective trade facilitation policies at their disposal. They can also leverage the export and investment promotion agencies, whose mandate allows them to provide more targeted technical assistance, combined with grants and subsidies. Recognising that insufficient export readiness, low quality of the supplier base and suboptimal absorption capacities are the main obstacles to internationalisation in the WBT region, the government can play an important role in facilitating SMEs' integration into global markets through a well-targeted, comprehensive policy mix of financial and non-financial support.

COVID-19 exacerbated existing challenges, while presenting SMEs with new ones, such as increasing the tendency of in-shoring in the global economy, multiple trade restrictions imposed worldwide and supply chain blockages. Now, more than ever, reinforcing trade facilitation measures and consistent support for SME internationalisation can provide a lifeline for SMEs struggling with the aftermath of the COVID-19 pandemic. Furthermore, the pandemic has demonstrated the importance of digitalisation and its contribution to growth and development. At the time of impeded access to traditional sales channels, e-commerce has proven a successful alternative, with 25% of surveyed¹ SMEs shopping using online channels and 30% of SMEs using them to sell their goods and services in 2021 (Balkan Barometer, 2021^[1]).

The majority of the assessed economies are small and open, therefore their reliance on government programmes, which allow them to export, join GVCs and engage in cross-border e-commerce, is significant. Consequently, removing administrative barriers to exports and investments within the economy, as well as providing extensive capacity building for SMEs while encouraging the public and the private sectors to digitalise their operations, is vital for the Western Balkans and Turkey to become better integrated into the global economy and increase their value added to the global trade system.

Assessment framework

Structure

The assessment framework for this dimension has three sub-dimensions (Figure 12.2):

- Sub-dimension 10.1: Export promotion assesses governments' support to SMEs for export promotion, examines whether governments have operational export promotion programmes in place that target SMEs and considers the provision of services to help SMEs penetrate international markets.
- Sub-dimension 10.2: Integration of SMEs into global value chains evaluates governments' support for SMEs wanting to integrate into global value chains, as well as programmes to promote linkages with larger exporting domestic firms or MNEs.

- Sub-dimension 10.3: Promoting the use of e-commerce examines government promotion of the use of e-commerce by SMEs. It considers the prevalence of legal frameworks to secure payments and consumer protection on line, and further analyses the supports in place to facilitate SME uptake of e-commerce.

All sub-dimensions divided the assessment into three thematic blocks: 1) planning and design (30% of the total score); 2) implementation (50% of the total score); and 3) monitoring and evaluation (20% of the total score).

Compared to the 2019 assessment, small adjustments have been made to the framework to enhance the importance of digital aspects of policies and measures, which in the context of internationalisation of SMEs relate specifically to developing digital tools by export promotion and investment agencies and facilitating access to information through centralised export-specific portals. A few additional questions were added to ensure that the questionnaire captures a wider range of relevant policies that contribute to the integration of SMEs into GVCs, including policies that aim at GVC linkages, supplier quality, industrial clustering, employee exchange and mobility from foreign firms to domestic SMEs, and the attraction of foreign direct investment (FDI) with strong linkage potential. The assessment takes into consideration COVID-19 response measures, although no evaluation has been made in this regard.

Figure 12.2 Assessment framework for Dimension 10: Internationalisation of SMEs in the Western Balkans and Turkey

| Internationalisation of SMEs | | | | | | | | |
|---|--|---|--|--|---|--|--|---|
| Outcome indicators Exports as a share of GDP Share of exports by enterprise size class SMEs' share in exports | | | | | | | | |
| Sub-dimension 10.1: Export promotion | | | Sub-dimension 10.2: Integration of SMEs into global value chains | | | Sub-dimension 10.3: Promoting the use of e-commerce | | |
| Thematic block 1: Planning and design | Thematic block 2: Implementation | Thematic block 3: Monitoring and evaluation | Thematic block 1: Planning and design | Thematic block 2: Implementation | Thematic block 3: Monitoring and evaluation | Thematic block 1: Planning and design | Thematic block 2: Implementation | Thematic block 3: Monitoring and evaluation |
| Quantitative indicators Budget of export promotion agencies | | | Quantitative indicators Global Competitiveness Index: Local supplier quality Global Competitiveness Index: State of cluster development | | | Quantitative indicators Percentage of individuals purchasing on line (in the last 12 months) Percentage of SMEs selling on line (in the past 12 months) | | |

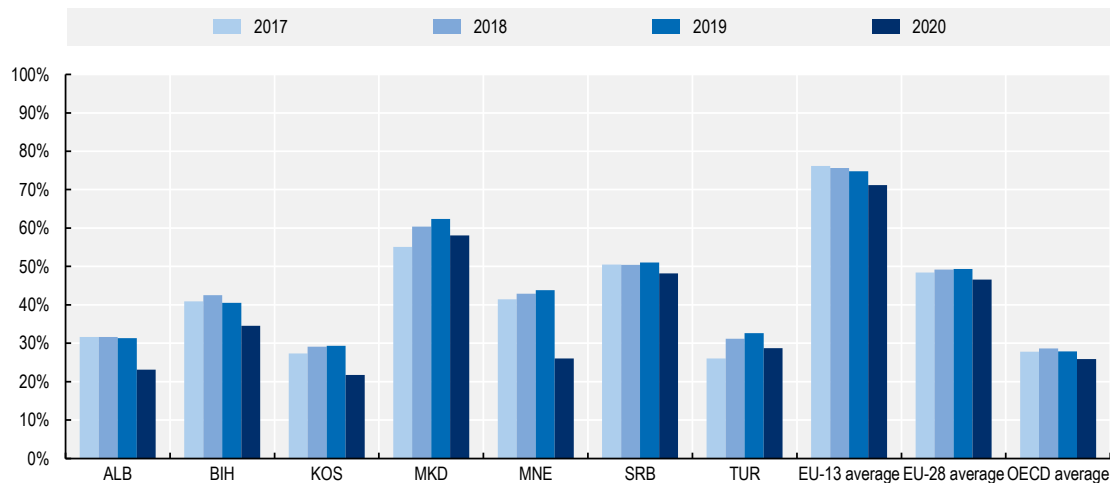
Analysis

Performance in internationalisation of SMEs

Outcome indicators are vital in analysing the effects of adopted policies, providing valuable insights for policy makers to assess the effectiveness and efficiency of existing measures and the potential need for new ones. The outcome indicators for this dimension demonstrate the export performance of SMEs and the economy as a whole in the WBT region.

This section begins by comparing the exports of the WBT region (expressed as a percentage of gross domestic product [GDP]) with those of the European Union (EU) and OECD member countries (Figure 12.3). As was the case in the last assessment cycle, North Macedonia has the highest rate of exports as a percentage of GDP, amounting to 58.1% in 2020. Kosovo had the lowest, amounting to 21.7% in 2020. All economies in the WBT region, as well the EU and the OECD, experienced a drop in exports in 2020 as a result of the COVID-19 pandemic. The biggest decrease, however, can be observed in Montenegro, which experienced a 17.8 percentage point contraction.

Figure 12.3 Exports from the Western Balkans and Turkey as a percentage of GDP (2017-2020)




Notes: OECD and EU averages are calculated as simple averages. EU-13: Bulgaria, Croatia, Cyprus,* the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

* Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus. Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus" issue.

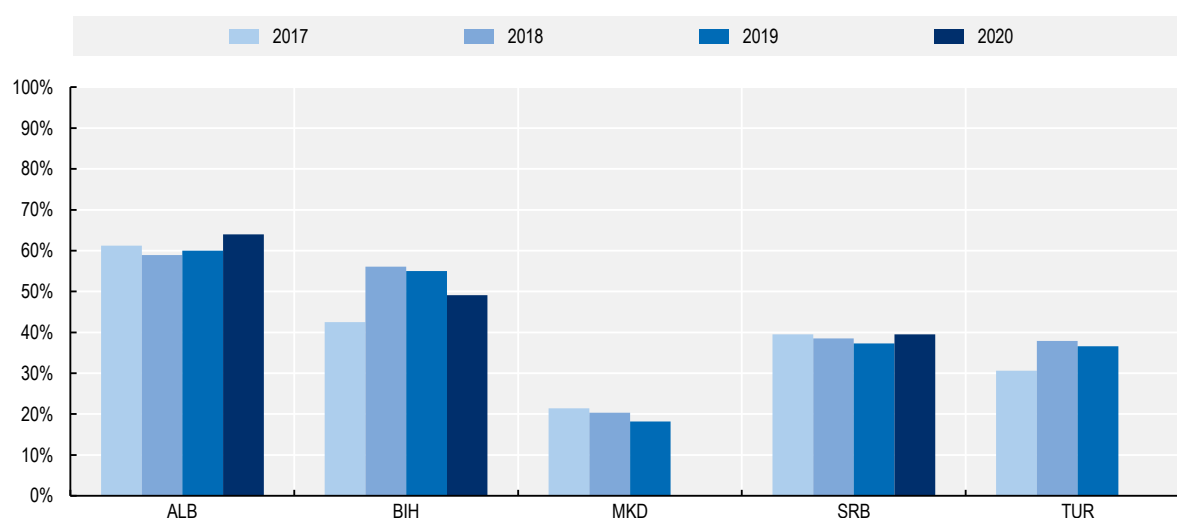
Footnote by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: World Bank (n.d.[2]).

StatLink  <https://stat.link/oif4xa>

SMEs' share of exports reached a relative plateau during the assessment period (Figure 12.4). With the exception of Albania and Serbia, it slightly decreased across the region, with less SMEs exporting goods and services in 2020. Out of all the Western Balkans and Turkey economies, Albania enjoyed the highest share of SMEs in the economy's exports, at 64% in 2020. With the adoption of new support measures to promote exports among SMEs and increase their export capacity, as well as a rebound in international trade following the post-COVID recovery period, SMEs' share of exports is bound for an increase in 2021 and 2022.

Figure 12.4 SMEs' share of exports in the Western Balkans and Turkey (2017-2020)



Notes: Data for Kosovo and Montenegro were unavailable for this assessment. Data for North Macedonia and Turkey for 2020 were unavailable. Small and medium-sized enterprises (SMEs) are defined as businesses with fewer than 250 employees. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by averaging the data of the Federation of Bosnia and Herzegovina and Republika Srpska.

Source: Data provided by Western Balkans and Turkey statistical offices.

StatLink  <https://stat.link/fai7d6>

Export promotion (Sub-dimension 10.1)

Export-oriented policies, facilitating foreign market access for SMEs, which oftentimes struggle with lower competitiveness, incomplete information about foreign markets and a lack of export capacity, are necessary for the government to ensure that SMEs do not face additional barriers hindering their internationalisation. In the WBT region, SMEs contribute to 65% of the value added in the assessed economies and that contribution cannot be overlooked (OECD et al., 2019^[3]). Therefore, to boost SME productivity and encourage foreign expansion, the governments and their respective export promotion agencies need to provide support, which acknowledges SMEs' needs, capabilities and limitations.

This sub-dimension looks at the export promotion programmes for SMEs with the potential for internationalisation. It evaluates the design of financial and non-financial support schemes and their consistency with domestic strategies, while also assessing their implementation and effectiveness. This section also looks at the monitoring and evaluations systems in place to analyse the extent to which the export promotion strategies and support schemes are monitored.

With the exception of Kosovo, for which the government is still revising key strategic documents, all economies in the region have improved their performance since the previous assessment cycle (Table 12.2). Despite the COVID-19 pandemic, which strongly impacted SMEs' operations and has taken a toll on export promotion activities across the region, overall implementation has improved. Monitoring and evaluation has also improved, but remains weak for export promotion, lacking independent reviews and measurable targets in key strategic documents.

Table 12.2 Scores for Sub-dimension 10.1: Export promotion

| | ALB | BIH | KOS | MKD | MNE | SRB | TUR | WBT average |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Planning and design | 4.86 | 4.13 | 3.95 | 5.00 | 4.65 | 4.65 | 5.00 | 4.61 |
| Implementation | 3.81 | 4.20 | 3.95 | 4.58 | 3.88 | 4.37 | 4.93 | 4.24 |
| Monitoring and evaluation | 3.67 | 3.07 | 3.67 | 3.67 | 3.22 | 3.67 | 4.56 | 3.65 |
| Weighted average | 4.09 | 3.96 | 3.89 | 4.52 | 3.98 | 4.31 | 4.88 | 4.23 |

Note: For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Export promotion is highlighted in strategic documents across the region

All assessed economies have highlighted the importance of export promotion in their strategic frameworks (Table 12.3). As SMEs represent the majority of all companies in the WBT region, most export promotion measures cater to them and are included in SME-specific strategies. Only a few economies, such as North Macedonia and Turkey, have more general documents relating to exports which are not SME-specific. In the majority of economies, increasing the volume of SME exports, as well as their complexity and value added, are among the key targets in SME-specific strategy pillars.

As a part of a variety programmes, all WBT economies provide SMEs with financial support for their internationalisation efforts. This support ranges from trade financing, export credits and grants to subsidies for trade fair participation and business-to-business (B2B) matchmaking. All economies also have non-financial support for SMEs available, such as capacity-building activities, training and technical assistance. However, that support varies in effectiveness across the region.

Table 12.3 Relevant national strategies governing export promotion in the Western Balkans and Turkey

| Economy | National strategy |
|------------------------|---|
| Albania | Business Investment Development Strategy (2021-2027) |
| Bosnia and Herzegovina | Federation of Bosnia and Herzegovina: Development Strategy of the FBiH (2021-2027) Republika Srpska: SME Development Strategy (2021-2027) – Industry Development Strategy (2021-2027) |
| Kosovo | National Development Strategy (2016-2021) ¹ |
| Montenegro | Strategy of SME Development (2018-2022) Programmes for Improving Competitiveness 2020, 2021 and 2022 |
| North Macedonia | Strategy for Export Promotion (2022-2026) SME Strategy (2018-2023) |
| Serbia | SME Development Strategy (2015-2020) ² |
| Turkey | Ministry of Economics Strategic Plan (2018-2022) Eleventh Development Plan KOSGEB Strategic Plan (2019-2023) 2023 Turkey Export Strategy and Action Plan |

Notes: Kosovo's National Development Strategy (2016-2021) expired in 2021; while it is still being used as a governing document, a new revised strategy is underway in 2022. Serbia's SME Development Strategy (2015-2020) expired in 2020 and has been implemented relatively successfully. A new strategy is being drafted at the time of writing.

Kosovo, Montenegro, North Macedonia, Serbia and Turkey are especially advanced in complementing financial support with non-financial assistance in the area of export promotion. This policy mix is particularly important for shifting to higher value-added exports and diversifying the export base, which are priorities for all of the assessed economies. By facilitating access to finance, which increases SMEs' financial capacity to develop and scale up their operations, companies can invest more in innovative products and solutions, which in turn is facilitated by access to training and capacity building that is provided in all of the

assessed economies, although with varying degree of effectiveness and accessibility. Albania recognised the importance of institutional support in improving the export readiness of SMEs and is a prime example of reinforcing institutional capacity to provide more technical assistance to SMEs aiming to export. The Albanian Investment Development Agency (AIDA), the body responsible for export and investment promotion, added a new training division to its structure to enhance its export capacity-building activities. The addition of a dedicated department responsible solely for training demonstrates a structured, systematic approach to provide technical assistance to SMEs, which can now rely on regular training modules, as opposed to *ad hoc*, project-based support.

Sources of information about available export promotion support remain fragmented

While all of the assessed economies inform SMEs about available export promotion support through official channels, dedicated, centralised portals are not prevalent across the region, resulting in information asymmetry. This is particularly relevant for SMEs, as they often lack resources to engage in a lengthy search for information on available government support programmes that would be the most suited for their needs. Fragmentation of information sources may result in lower uptake of offered programmes and generates higher transaction costs and resource inefficiencies among SMEs, which already struggle with higher barriers to enter foreign markets (OECD, 2021^[4]). Seventeen per cent of surveyed² SMEs in the Western Balkans quote the inability to find a foreign partner as a deterrent to exporting (Balkan Barometer, 2021^[1]). While some economies, such as Albania, Bosnia and Herzegovina, and North Macedonia, directly offer some extent of assistance in finding export destinations, the information services on foreign markets and market access remain insufficient.

To remedy this issue, North Macedonia launched a separate export promotion portal for domestic SMEs (Box 12.1). The portal provides a B2B matchmaking platform, detailed export guidance, market analysis and information on relevant export policies. It also allows SMEs to learn about domestic and international trade fairs and apply to participate. Kosovo has also made considerable advancements in the area, digitalising export promotion services and enabling SMEs to apply for support on line.

Despite these initiatives, incomplete information about foreign markets still poses a challenge for SMEs across the region. Clear and easily accessible information is necessary for businesses, especially SMEs, to identify, apply and benefit from government support programmes. This is particularly true in the era of the COVID-19 pandemic (ITC, 2020^[5]), during which many SMEs became particularly vulnerable and relied purely on available government support.

Box 12.1 Invest North Macedonia export portal

Invest North Macedonia is an investment and export promotion agency, co-ordinated by the government of North Macedonia. It has a comprehensive portal containing relevant export support measures, as well as a broad array of domestic and foreign market information. The website offers multiple export guides and handbooks, which aim to assist small and medium-sized enterprises (SMEs) at every stage of development, whether they aim to start exporting or expand their international market penetration. SMEs can readily assess their export potential and readiness using one of the resources on the website. The portal also serves as an online marketplace for domestic companies, which can post their offer on the export portal to increase their exposure and visibility. They can then be found through a built-in search engine, after defining search criteria. A business-to-business matchmaking portal is also available through the portal, which helps create linkages between potential export and investment partners. Apart from educational and informational support, SMEs can also fill out an application to participate in international trade fairs through the website, significantly reducing the administrative burden.

Enabling SMEs access to comprehensive educational and informational resources about accessing foreign markets significantly contributes to facilitating and improving the export readiness of Macedonian SMEs. As SMEs quote lack of skills and capacity as the main deterrents to exporting, digitalising access to resources is a vital step forward to increasing exports and their quality. Assisting SMEs in their search for a foreign partner, as well as creating an online database of domestic suppliers, plays a major role in trade facilitation and removes any potential intermediaries in the process, thus further reducing any administrative burdens and costs.

As the majority of Western Balkans and Turkey economies do not have a dedicated online portal, Invest North Macedonia's website solely dedicated to export promotion serves as a good practice example for the region. Its broad scope of digital tools and informational resources helps both domestic SMEs in their internationalisation efforts, as well as potential investors looking for SME suppliers in North Macedonia. The Western Balkans and Turkey could also benefit from a region-wide export promotion portal, which could highlight opportunities for SMEs to connect with potential buyers, as well as promote the region as a sound investment destination.

Source: <https://investnorthmacedonia.gov.mk>.

Many economies exceeded their programme implementation targets, with most export promotion services' uptake rising

At the time of writing, all Western Balkans and Turkey economies provide both financial and non-financial export assistance to SMEs (with the exception of Albania, due to the ongoing redesigning of support schemes). The most prevalent programmes include grants for trade fair participation (Bosnia and Herzegovina, Kosovo, Montenegro, Serbia, and Turkey), advisory services (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia, and Turkey) and B2B matchmaking (Albania, Bosnia and Herzegovina, and Kosovo). Export promotion programmes across the region have largely been implemented, despite the onset of the COVID-19 pandemic, which has affected programme implementation across the board. In fact, many economies have reached or even exceeded their targets, which points to a relevance and appeal of introduced programmes for SMEs. For example, the International Market Support Programme in Turkey supported 653 SMEs, which is considerably more than other export promotion programmes offered by the Small and Medium-sized Enterprises Development Organisation (KOSGEB). In addition, the project's funding covers 70% of the funding available for export promotion activities and SME integration into GVCs (OECD, 2021^[6]). Furthermore, Bosnia and Herzegovina's export promotion programmes, including assistance in achieving quality standards, marketing and digitalisation of operations, also enjoyed a relatively high uptake of 391 in 2020. A similar trend of increased uptake of support programmes can be observed in Kosovo and Serbia.

Nevertheless, the situation in the region remains heterogeneous and export promotion support remained largely underused in some economies. This was the case of Montenegro, where in 2020, only 2 companies received support for modernisation of production processes, compared to 11 in 2019. Only 1 received support for the development of circular economy activities, 44 for small-scale investments and 55 for the digital transformation of business operations, which were new budget lines introduced in the Programme for Improving Competitiveness 2020. In Albania, AIDA's operations were halted in 2020 and 2021 due to the redirection of funds to COVID-19 relief resulting in reduced use, postponed and cancelled programmes, as well as the support scheme redesign process.

SMEs across the region also have access to a range of projects backed by international development partners. The projects usually entail financial support, such as loans and grants or technical assistance, such as mentoring and advisory services. Oftentimes, it is a combination of both, as blending financial and non-financial services proves to be the most effective in stimulating SMEs' development. A good example

of this mixed approach is the Matching Grants Programme in Kosovo, implemented through the Competitiveness and Export Readiness Project with a EUR 14.3 million loan from the World Bank. It combines technical assistance in certification and standardisation with grants for equipment procurement. To date, 200 SMEs have benefited from this programme in Kosovo. Another successful project is in the process of being implemented in Bosnia and Herzegovina, Montenegro, and Serbia. The Danube Transnational Programme is a financing instrument of Interreg,³ in line with EU Cohesion Policy. One of its priorities is to enhance innovation and SME skills development and boost technology transfers. Though not explicitly focused on export promotion, the project's priorities are aligned with making SMEs in the region more competitive and their development more sustainable.

Some of the assessed economies have also implemented export promotion projects within the scope of the Europe Enterprise Network, which assists SMEs in the Western Balkans and Turkey to expand on a global scale and boost their internationalisation potential.

Monitoring has moderately advanced across the region, though with an outstanding challenge of performance-based evaluation

Although most economies have improved their monitoring and evaluation mechanisms, room for improvement remains. Proper review of export promotion programmes have been a long-standing challenge in the WBT region. However, advancements can be observed, especially in Albania, Kosovo, Montenegro and Turkey. In Turkey, this progress entails formalising the process of feedback collection from support beneficiaries, while in Albania the government started taking into account a set of recommendations prepared post-evaluation by relevant institutions in future policy design. Digitalising export promotion applications in Kosovo also had a direct impact on enhancing transparency and the monitoring of provided support. In Montenegro, the government is using clearly defined performance indicators to assess the effectiveness of strategic documents and obligates all co-financing beneficiaries to submit all documentation relating to the application of funds and the effects of implementation of co-financed activities.

Despite improvements in the overall monitoring and evaluation of export promotion programmes, the region falls short in introducing an independent review of its support initiatives. While in almost all economies SME support programmes are subject to an audit, an evaluation from an independent institution is lacking. Independent evaluation of the implemented schemes, as well as their effectiveness and cost-efficiency in improving SMEs' efforts to internationalise, is crucial in ensuring adequate budget allocation and increasing transparency.

Another factor weakening the monitoring mechanisms is the absence of quantifiable, measurable targets in strategic documents. Albania, Montenegro, Serbia and Turkey all included a degree of measurable goals in their SME strategies; however, this is not a common practice across the region.

The way forward for export promotion

- **Establish dedicated centralised export promotion portals.** Dedicated portals containing data on all available export promotion support and applicable policies need to be established and regularly updated. To increase the uptake of export promotion initiatives by SMEs, there is a need to raise awareness about potential opportunities in foreign markets as well as provide training on the expansion process. SMEs should have easy access to information about prospective export destinations and market reports with a comprehensive analysis of foreign markets, as well as barriers to entry and trade facilitation measures.
- **Continue boosting monitoring and evaluation for export promotion programmes and reinforce data collection mechanisms.** On top of monitoring the satisfaction of SMEs benefiting from government support schemes, the governments should define and monitor quantifiable

targets as well as introduce performance-based monitoring and evaluation, which would give them insight into the effectiveness, value-added and cost-efficiency of introduced projects. See Box 12.2 for a good practice example from Georgia. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Box 12.2. SME support programme monitoring and evaluation in Georgia

The Georgian government agency Enterprise Georgia (EG) is the main co-ordinator of programmes and policies to support small and medium-sized enterprise (SME) sector development in the economy. In 2020, EG structured its pilot monitoring and evaluation framework by developing a success indicators catalogue to assess the financial and economic impact of its support programmes. The goal was to measure the impact on beneficiaries, as well as their feedback after participating in the programme. EG selected a representative sample of beneficiaries of various forms of support to evaluate their impact using 35 indicators. The indicators were divided into medium-term impact-level ones, which capture the programmes' results, and department-level ones, which evaluate specific outcomes and activities of the initiatives.

The assessment is based on a robust data collection system, both from external sources and the beneficiaries, capturing their financial indicators, economic and operational performance, and general feedback on EG's activities. The results of the evaluation are thoroughly quantified and indicate how much of EG's support translates into beneficiaries' additional turnover, contribution to gross domestic product and annual tax revenue, showcasing the effectiveness of provided support. In the period to come, EG plans to further develop the methodology and apply it to the entire portfolio of its SME support services.

SME support programmes are rarely evaluated from the angle of performance and the impact they have on beneficiaries across the Western Balkans and Turkey. While they are often assessed based on the satisfaction of the beneficiaries and their uptake and popularity, detailed impact assessments are not prevalent across the region. Strengthening data collection mechanisms should be the first step in reinforcing monitoring and evaluation of SME support initiatives. Developing a catalogue of success indicators to effectively assess the impact of government programmes targeting SMEs follows as a next step in ensuring efficient and effective support.

Source : Enterprise Georgia (2022^[7]).

Integration of SMEs into global value chains (Sub-dimension 10.2)

SME integration into GVCs is one of the key drivers of growth in small, open economies. It can help SMEs engage in indirect exports, as well as benefit from knowledge and technology transfers by collaborating with MNEs. The WBT region has long been motivated to shift to more export-led growth, as well as increase the value added of the regional output. Further integration of SMEs into GVCs is a vital element of increasing the complexity of the exports, as well as generating more value added within the economy.

This sub-dimension looks at the policies adopted by the WBT governments to foment linkages between MNEs and SMEs with the goal of increasing SME participation in GVCs. It assesses the economies' strategic frameworks for improving supplier quality, cluster development and stimulating SME-MNE linkages, while also evaluating their implementation. The sub-dimension also analyses the governments' mechanisms for monitoring and evaluation of introduced policies and programmes.

Since the last assessment cycle, all economies have improved SMEs' integration into GVCs (Table 12.4). The most significant advancement can be observed in Albania, due to its adoption of comprehensive strategic documents, which set out a framework for a successful integration into GVCs. Across the region, monitoring and evaluation have considerably improved, but remain underdeveloped in most economies.

Table 12.4 Scores for Sub-dimension 10.2: Integration of SMEs into global value chains in the Western Balkans and Turkey

| | ALB | BIH | KOS | MKD | MNE | SRB | TUR | WBT average |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Planning and design | 3.72 | 2.52 | 3.89 | 4.67 | 4.28 | 4.00 | 4.11 | 3.88 |
| Implementation | 3.87 | 1.55 | 3.97 | 3.26 | 3.26 | 4.28 | 4.79 | 3.57 |
| Monitoring and evaluation | 3.00 | 1.89 | 3.00 | 1.67 | 3.33 | 3.00 | 3.00 | 2.70 |
| Weighted average | 3.65 | 1.91 | 3.75 | 3.36 | 3.58 | 3.94 | 4.23 | 3.49 |

Note: For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

The majority of the assessed economies promote enhanced linkages between multinational enterprises and SMEs

In the WBT region, SMEs often struggle with accessing GVCs through direct exports due to hindered market access or lower capacity to export. Leveraging MNEs which have already established operations in the region and facilitating the investment framework to attract new enterprises to the economies can facilitate GVC integration for SMEs.

GVC participation allows SMEs to capture a larger customer base, as well as benefit from knowledge and technology transfers stemming from increased collaboration with larger enterprises. To successfully integrate and move up the value chains, SMEs need to increase their productivity and competitiveness. GVC integration can be done either by becoming a supplier for MNEs operating in the domestic market exporting their outputs, direct exporting or outward FDI (Zhenwei, Lui and Steenbergen, 2021^[8]). To promote increased economic integration, the government can place its efforts on attracting export-oriented FDI by providing a conducive regulatory environment and investment incentives.

Integrating SMEs into GVCs is included in all national strategies governing SME internationalisation across the region, although approaches range from promoting SME-MNE linkages and domestic suppliers base development to cluster formation and FDI attraction. The most prevalent approach outlined in strategic documents is to place an emphasis on boosting competitiveness by improving both the products and services quality of domestic SME suppliers, as well as their production facilities and in-house processes to streamline operations and increase productivity. Serbia and Turkey introduced their own programmes aimed at improving the quality of the supplier base in order for domestic SMEs to integrate in the suppliers' network of larger enterprises. This approach is beneficial for both sides of the linkages: SMEs benefit from knowledge and technology transfers, while also increasing their output and productivity. MNEs, on the other hand, reduce their operational and transaction costs by sourcing directly from the local market. However, to become suppliers of MNEs, SMEs need to adhere to the quality requirements and international standards of larger enterprises, which often pose a challenge, especially for SMEs with limited economies of scale.

A few economies in the region have undertaken efforts to upgrade the domestic supplier base by assisting SMEs in adhering to international standards. For instance, the Development Agency of Serbia implemented the Supplier Development Programme, which aims to boost SME participation and inclusion into GVCs by assisting SMEs with equipment procurement and providing capacity building to upgrade their operations. Similarly, Turkey has introduced the Global Supply Chain Entry Support Programme, which grants support for machinery and software procurement, training, consultancy services, and certification and standardisation for SMEs. Both programmes demonstrate the commitment to upgrading the supplier base

in the economies and making them more competitive on a global scale. On the regional level of the Western Balkans six, an inter-agency initiative – the Regional Supplier Development Programme – was established, assisting SMEs in building their capabilities and export readiness to better integrate into GVCs.

However, SMEs in the WBT region still face multiple obstacles even after having formed a linkage with an MNE. The enterprises identify skills shortages, institutional changes, frequent regulatory modifications, customs wait times, unfair competition and lack of transparency in regulations (Ilahi et al., 2019^[9]). Introducing capacity-building programmes, as well as intensified policy efforts to facilitate customs procedures, are crucial for creating and strengthening MNE-SME linkages and attracting export-oriented FDI.

At the time of writing, the majority of GVC linkages formed in the Western Balkans region stem from lower value manufacturing and services (OECD, 2019^[10]). Services were particularly affected by the COVID-19 pandemic, especially given the region's reliance on tourism. The COVID-19 pandemic has demonstrated the need to shift to higher value activities in order to move up the GVCs, increase the value added of the regional output and attract high-quality FDI profiles.

Recognising that, the role of investment promotion agencies as vessels for attracting investors, job creation and overall productivity growth has been highlighted (OECD, 2018^[11]). All economies in the region have dedicated investment promotion agencies; however, mandates and effectiveness vary. In Bosnia and Herzegovina, Montenegro, and North Macedonia, the investment promotion agencies do not provide financial support to SMEs and serve a more informational purpose. KIESA in Kosovo, KOSGEB in Turkey AIDA in Albania and the Development Agency of Serbia on the other hand, have broad mandates that go beyond export and investment promotion, also including broad support for SMEs. Consequently, the number of employees and the agencies' budget vary considerably across the region; however, many of agencies are understaffed and underfunded, with much of their resources having been redirected towards the mitigation of the effects of the COVID-19 pandemic in 2020. Some progress can be observed in boosting the staff and budgets of respective agencies, for instant KIESA has significantly increased its budget since the last assessment cycle, while AIDA has increased its staff from 28 to 38.

Advancements can be observed in cluster formation

Western Balkans and Turkey economies have placed considerable emphasis on industrial clustering. Special economic zones (SEZs)⁴ have long been used as tool for knowledge and technology transfers and attracting investment. Industrial clusters are a type of SEZ, which is primarily export-oriented and can serve as an export processing zone or a cluster offering investment incentives (OECD, 2017^[12]). By clustering, SMEs can significantly improve their economies of scale, consequently capturing a wider market share. Higher returns, in turn, boost productivity, resulting in stimulated growth (Foghani, Mahadi and Rosmini, 2017^[13]). Furthermore, clusters contribute to an environment conducive to productivity growth, by increasing the presence of interconnected, specialised suppliers workers, service providers and firms in related industries. It can result in lower market entry costs for SMEs and sharing the exposure burden and minimising potential risks. Clustering often brings with it a sector-specific infrastructure, provides access to better intermediate inputs and enlarges the pool of workers with similar skills, thus boosting productivity and specialisation and attracting further entrepreneurial activity and forming larger business networks.

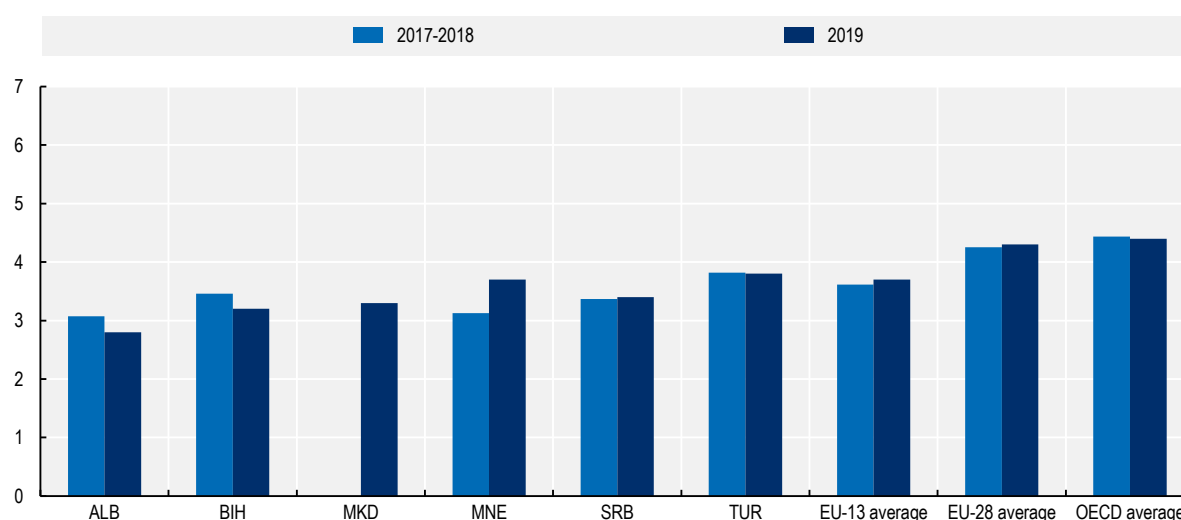
In this assessment cycle, all economies have included a degree of cluster support in their national strategies to encourage industrial grouping. Albania, Bosnia and Herzegovina, Kosovo, and Montenegro have all made considerable progress in incentivising cluster formation and development. Clusters in the region consist of intertwined companies and relevant institutions, ranging from business associations to academia. On many occasions, an international partner provides technical and/or financial assistance in forming the cluster, such as GIZ, the European Union or the United Nations Industrial Development Organisation.

Heterogenous stakeholders can be of great importance when selecting industries with clustering potential. Governments across the Western Balkans have conducted multiple sectorial studies to explore clustering

potential within the economies, such as Kosovo, which has intensified its efforts in cluster formation, exploring clustering potential in the wood processing industry, plastics and furniture sectors by conducting various sectorial studies. The government adopted an approach of first identifying clustering opportunities and functional groupings, then providing grants and subsidies to encourage the technology and knowledge transfers within the industrial cluster. Kosovo has already formed clusters in the wood and metal processing sectors. In Bosnia and Herzegovina, at the entity level, Republika Srpska, with the co-operation of the Ministry of Agriculture, introduced new initiatives on cluster formation and development, especially in the strategic agro-food sector. The ministry is also in the process of preparing the Agricultural Cluster Development Programme (2022-2026).

As illustrated by Figure 12.5, cluster development is best perceived in Turkey and Serbia. With Turkey's developed institutional environment, consisting of 26 regional development agencies and investment support offices, the economy is well positioned as one of the leaders in cluster development in the region. Serbia, with its network of SEZs, also possesses a sound institutional and physical infrastructure to encourage knowledge transfers and form productive clusters, which are export-oriented and drive growth through the attraction of FDI.

Figure 12.5 State of cluster development in the Western Balkans and Turkey(2017-2019)



Notes: Survey question: "In your country, how widespread are well-developed and deep clusters (geographic concentrations of firms, suppliers, producers of related products and services, and specialised institutions in a particular field)?" [1 = non-existent; 7 = widespread in many fields]. 2017-18 data for North Macedonia are not available. Data for Kosovo are not available.

Source: World Economic Forum (2019^[14]).

StatLink  <https://stat.link/ob6rt0>

Monitoring and evaluation of the impact and effectiveness of policies promoting SME GVC integration are lacking across the region

One of the outstanding challenges in the region is the lack of monitoring and evaluation of the impact of programmes encouraging SMEs' inclusion in the GVCs. While monitoring mechanisms are in place for specific programmes across the region and oftentimes evaluated based on the beneficiaries' feedback, their effectiveness, and especially cost-effectiveness, is rarely accounted for. Lack of performance-based evaluation can hinder the governments' efforts to provide targeted, efficient and needs-based support for SME integration into GVCs.

What often impedes monitoring and evaluation of SMEs' GVC activities is the lack of measurable, quantified goals in key strategic documents. Some economies, like Bosnia and Herzegovina or North Macedonia, set specific targets regarding SMEs' GVC participation, although no measurable indicators are provided. Others, like Montenegro or Serbia, set targets on the number of SMEs to become suppliers or collaborators of large enterprises in a given time frame. While it is an understandable proxy to measure the effectiveness of GVC programmes, shifting attention to performance-based evaluation of the programme's impact might prove more effective.

Feedback gathered from SME beneficiaries is a valuable indicator of their satisfaction and the popularity of the programme. However, they show little benefit in actually measuring its impact on their performance in the medium and long term. SMEs are not required to provide information on the changes in productivity, efficiency gains or skills upgrading, all of which contribute to SMEs moving up the value chains. While gains from GVC integration are difficult to quantify, given their complexity and governance structures (World Bank Group et al., 2017^[15]), only some governments, like Serbia and Turkey, gather data on SME integration or participation in GVCs. Nevertheless, regular and systematic impact assessments of integration of domestic SME in GVC is lacking across the region.

The way forward for integration of SMEs into global value chains

- **Intensify efforts to provide far-reaching policies aiming to improve the productivity of SMEs and to broaden the economies' supplier base.** The governments should boost their efforts to enhance the supplier base in the economy to match the inflowing FDI. To do so, the governments should place emphasis on capacity building in the area of compliance with international standards, management, innovation, managerial capabilities and upgrading production facilities.
- **Reinforce the capabilities of investment promotion agencies to ensure they can execute their mandates.** Ensuring stronger co-ordination (including joint programming, co-ordination committees, etc.) between investment promotion agencies and government bodies responsible for SME policies can result in more effective attraction of quality FDI and promotion of FDI-SME linkages. This applies particularly to agencies with broader mandates that include far-reaching SME support. Some economies have already advanced in boosting the capacity of their agencies (Albania, Kosovo); however, all economies should ensure that budgets and staffing are adequate to the targets set by the agencies and the roles with which they were entrusted. In addition to improved administrative capabilities, the agencies should ensure they possess and utilise suitable digital tools to develop high-quality investor targeting schemes and after-care services.
- **Enhance performance-based monitoring and data collection for policies promoting SME integration into global value chains.** The governments and respective investment promotion agencies should place their focus on monitoring the performance of the beneficiaries of support schemes aiming to integrate SMEs into GVCs. It is of particular importance to reinforce data collection mechanisms for potential FDI-SME linkages, as well as indirect exports, which can serve as proxies to SME integration into GVCs. In addition, a framework to measure the performance of SMEs after taking up provided initiatives could give valuable insight into both positive and negative effects of selected policies, which will later demonstrate their viability both for the beneficiaries, as well as for the governments' efficient allocation of resources. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

Promoting the use of e-commerce (Sub-dimension 10.3)

Adoption and promotion of e-commerce play a crucial role in SME internationalisation, which has been clearly demonstrated by the onset of the COVID-19 pandemic, as most commercial activity was moved on line. However, in order for SMEs to adopt the digital sales channel, they need to have the capacity and capability to do so. Therefore, the governments should ensure that they provide SMEs with a proper digital

infrastructure, which can include a legal framework, digital skills acquisition and digitalisation of government services.

This chapter assesses the governments' policies to facilitate access to and the adoption of e-commerce practices, while looking at the regulatory infrastructure, initiatives aiming to boost the uptake of digital sales, and assessing the monitoring and evaluation systems in place for e-commerce.

With the exception of Bosnia and Herzegovina, all economies have improved their scores under the e-commerce sub-dimension (Table 12.5). Programme implementation has improved across the board, as many economies have introduced new initiatives promoting the use of the online sales channel and informing SMEs about potential opportunities in e-commerce. However, most of the assessed economies lack a dedicated institution to oversee e-commerce activities, thus limiting the scope of monitoring and evaluation.

Table 12.5 Scores for Sub-dimension 3: Promoting the use of e-commerce in the Western Balkans and Turkey

| | ALB | BIH | KOS | MKD | MNE | SRB | TUR | WBT average |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Planning and design | 3.67 | 2.48 | 3.67 | 3.67 | 3.22 | 3.67 | 5.00 | 3.62 |
| Implementation | 3.00 | 1.33 | 4.00 | 3.00 | 3.00 | 3.00 | 4.75 | 3.15 |
| Monitoring and evaluation | 3.67 | 1.00 | 4.33 | 3.67 | 2.33 | 3.00 | 5.00 | 3.29 |
| Weighted average | 3.33 | 1.61 | 3.97 | 3.33 | 2.93 | 3.20 | 4.88 | 3.32 |

Note: For more information on the methodology see the Policy Framework and Assessment Process chapter and Annex A.

Legal and institutional frameworks for the adoption and promotion of e-commerce among SMEs are largely lacking in the region

Across the region, the COVID-19 pandemic has highlighted the importance of digitalisation of operations for SMEs locally, as well as the role that cross-border e-commerce can play in SMEs' foreign expansion. Within the Western Balkan region, Bosnia and Herzegovina and Serbia have the highest percentage of SMEs using the e-commerce channel for sales, 18% and 27% respectively (Eurostat, 2022^[16])⁵. Out of surveyed SMEs across the Western Balkans (excluding Turkey), 30% used the Internet for selling goods and services in 2021 (Balkan Barometer, 2021^[11]), compared to 26% in 2019 (Balkan Barometer, 2021^[11]). This increase likely captures the effects of the COVID-19 pandemic on SME integration into the online distribution channel. A similar trend can be observed among the general population, where the personal use of e-commerce for purchases online has been consistently increasing since 2019, averaging to approximately 33%⁶ in 2021, which is a 9 percentage point increase from 24% in 2019 (Eurostat, 2022^[17]; OECD, 2020^[18]).

The pandemic tested the governments' digitalisation levels and adaptability. While some advancements in overall digitalisation can be observed since the last assessment cycle, such as establishments of online government services platforms, for example e-Kosova, e-commerce regulation and facilitation still remains a lower priority for the governments in the WBT region. Few economies in the region benefit from a developed legal framework for e-commerce adoption among SMEs.

Some economies have strengthened their general legislative framework for e-commerce, like Albania, North Macedonia, Serbia and Turkey, which certainly helped in responding to the COVID-19 crisis.

Advancements can be observed in establishing, reinforcing and harmonising e-commerce legislation with EU directives. For instance, Albania has adopted a number of laws and strategic documents to regulate and promote e-commerce and e-payments, such as the Law on Payment Services, Albania's Digital Agenda (2015-2020), and the Business and Investment Development Strategy (2021-2027). The government set an ambitious 50% target of businesses using ICT for e-commerce purposes,

demonstrating an increased commitment to boosting the online sales channel. North Macedonia has also advanced in prioritising e-commerce in its legislation and ensuring its alignment with EU directives. The Law on Consumer Protection, which is currently under government review, will be fully aligned with EU standards, as well as CEFTA provisions. The law is an extension of the broader Law on Safety of Goods and includes provisions on e-commerce and e-payments. Serbia also enjoys a fairly well-developed e-commerce legislation, adopting a new Law on Trade and amendments to the Law on E-commerce, going as far as to regulate definitions of an online store dropshipping and mystery shopper practices. Other assessed economies, however, do not have a legal system in place for the promotion of e-commerce, which remains largely under-regulated (OECD, 2020^[18]; 2021^[19]).

The COVID-19 pandemic played a significant role in exposing the shortcomings of the legal frameworks across the region. As the pandemic considerably accelerated the shift towards e-commerce, some economies were left behind, due to a poorly developed or non-existent legal infrastructure. Without a legal and institutional environment supporting digitalisation and e-commerce, the economies were not able to successfully transition to online sales channels or to other internationalisation activities, which had to be moved on line due to ongoing social distancing measures. As some of the changes warranted by the COVID-19 crisis are poised to remain permanent, such as online shopping or remote work, economies without a proper infrastructure to support it will get left behind (OECD, 2020^[18]). This is particularly relevant for SMEs, which are more likely to have limited resources and restricted access to technology. As a result, the digital gap within economies and within the region has become more tangible, as most support programme activities moved on line, excluding the less-connected SMEs.

In spite of deficient legal environments for e-commerce, the economies have progressed in programme implementation with varying levels of effectiveness

Despite the absence of a strong institutional and legislative framework for e-commerce, many economies in the region have made considerable progress in implementing digitalisation initiatives. While not all of them had a clear e-commerce focus, all of them focus on broadly defined digitalisation, which entails moving SME operations on line, acquiring digital skills, procuring hardware and software, and digitalising government services for citizens and businesses. There is a broad consensus that connectivity is a first step for domestic SMEs to integrate into the cross-border online sales channel. Hence the importance of acquiring digital skills for enterprises, especially SMEs, which have a higher propensity to fall far on the spectrum of the digital divide, and enhancing trust in digital processes are key fundamentals in eventually adopting e-commerce practices among SMEs.

To advance on this agenda, the governments in the region have implemented numerous financial and non-financial support programmes aiming to increase digitalisation levels within the economy and assist SMEs. For instance in Turkey, the Virtual Trade Academy, co-ordinated by the Ministry of Trade, grants SMEs training opportunities in the area of search engine optimisation, e-commerce, global online marketing, social media marketing, cybersecurity and managing a digital sales channel. Kosovo has also been amplifying its efforts to digitalise SMEs' operations and assist them in adopting e-commerce practices through the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS) government programme. Furthermore, additional financial support for digitalisation is provided to women- and minority-owned SMEs in Kosovo via the Digital Empowerment Initiative. Similarly, Albania is implementing the Digital Jobs Albania with a focus on women entrepreneurship and digital skills development for the self-employed. Montenegro, North Macedonia and Serbia also provide financial support for SMEs with a broader digitalisation focus.

The effectiveness of implemented e-commerce programmes vary across the region. The promotion of e-commerce has been particularly successful in Turkey, where the goal of a 10% ratio of e-commerce in the retail market by 2023 was exceeded to reach 15.7% in 2020 (Ministry of Trade, 2021^[20]). Programmes implemented in Serbia contributed to an increase in e-commerce usage among consumers, not necessarily

to SME adoption of online sales practices. In Kosovo, despite the World Bank-supported initiative introduced in 2018 that has been mostly successful in increasing the economy's connectivity, increasing the number of people, businesses and public institutions with high-speed Internet access, the uptake of e-commerce has actually decreased. Similarly, in Montenegro, despite introducing co-financing schemes allowing SMEs to hire an external consultant to oversee the implementation of digital and e-commerce practices and boosting the budget for SME digitalisation, uptake remains low. Albania, on the other hand, has progressed in increasing the adoption of e-commerce within the economy, with 20% of surveyed Albanian companies either starting or increasing online business activity during the COVID-19 pandemic (World Bank, 2020^[21]).

The varied effectiveness of e-commerce programmes partially stems from the lack of centralised information sources about e-commerce opportunities, insufficient institutional oversight and regulatory uncertainties caused by incomplete legal frameworks across the Western Balkans. Consumers and SMEs alike have limited opportunities to learn about the available options, as well as the regulation governing online sales (OECD, 2021^[22]). In addition, the lack of dedicated institutions responsible for e-commerce adoption might also contribute to oftentimes suboptimal uptake of digitalisation and e-commerce initiatives. Nevertheless, overall progress in programme implementation can be observed across the region, which shows promise for increasing SME digitalisation and boosting cross-border e-commerce.

While data collection mechanisms have improved in the majority of economies, monitoring and evaluation leave room for improvement

Data collection mechanisms have improved across the region, as more economies have started keeping track of their SMEs' e-commerce activities, which naturally intensified during the COVID-19 pandemic. For example, in North Macedonia, the Association for E-Commerce makes noteworthy efforts in collecting data on e-commerce in the economy and prepares comprehensive reports and analysis. In Turkey, as a part of e-commerce information platform registering all e-commerce activity in the economy, the government collects data on a variety of categories of e-commerce activities, including the number of businesses engaging in e-commerce in the economy, the distribution of businesses with online sales channel activity by province and e-commerce volume by payment method, among others. Strategic documents in Montenegro also envision creating a database to keep track of companies using e-commerce in their operations.

However, even with these advancements, e-commerce programmes are not accompanied by relevant institutional and policy measures, which would guarantee their effective supervision. That, in turn, can lead to insufficient customer protection, further decreasing the already weak general trust in e-payments and cybersecurity, which is a vital element of boosting demand for e-commerce sales in the first place. To increase the digital fluency among the population and thus boost the uptake of e-commerce practices by SMEs attempting to meet the demand created by a technologically savvy population, some governments chose to engage in awareness-raising campaigns about consumer online protection. Serbia, for example, is advising the public on online consumer rights and protection mechanisms, which a good first step to boost trust in digital operations. Nevertheless, despite efforts in improving e-commerce regulation and the populations' awareness, weak monitoring mechanisms without dedicated institutions providing oversight are prevalent across the region. In most economies, e-commerce is within the purview of relevant ministries, with only Turkey establishing a dedicated E-Commerce Directorate within the Ministry of Trade. Development agencies with broad mandates, including investment, export promotion and overall SME support, such as KIESA in Kosovo or AIDA in Albania, also offer services related to digitalisation and e-commerce; however, due to their broad range of support, monitoring and impact assessment of these services is limited.

The way forward for promoting the use of e-commerce

- **Further reinforce the legislative framework for the promotion of e-commerce to increase the uptake of digital practices among SMEs.** Aligning legal frameworks on e-commerce with the EU E-Commerce Directive, which ensures transparency for online service providers, regulates commercial communication and electronic contracts, is a good step to start building digital trust. Capacity building on integrating a payment system, transactions and security will improve the region's perception and uptake of e-commerce, particularly among SMEs, as they face greater barriers than bigger firms. Having e-commerce programmes overseen by a dedicated institution or agency that is co-ordinating e-commerce policy would streamline communication and standardise processes on a national level, while also ensuring proper monitoring and evaluation.

Box 12.3 E-commerce regulatory framework toolkit

International organisations have agreed on a consensus about good practices in designing laws governing e-commerce, resulting in a set of rules for policy makers to follow. The focus is consumer protection and transaction security for both the seller and the buyer. The rules are based on a set of guidelines designed by the OECD and the United Nations.

1. E-commerce regulation should follow the rules of fair business and advertising. Any deviation from good business practices or fair advertising should be regulated and punishable by civil law.
2. Transparency is vital in building consumers' and businesses' trust in e-commerce. Any e-commerce regulation should obligate businesses to disclose the features of sold goods and services and transaction conditions in order to increase consumer protection.
3. E-payments should be secure and regulated by the government, which should ensure a traceable, transparent and easy to use payment mechanism.
4. The government should have safeguards in place to minimise risks and ensure that e-commerce transactions are secure.
5. The scope of products and services sold on line should be regulated to comply with health and safety requirements, sanitary and phytosanitary (SPS) regulations, and technical standards. The government should minimise the occurrence of the informal market on line by introducing secure payment systems.

Notes: E-commerce regulation should allow for an effective dispute resolution by relevant authorities. Both sellers and buyers should have easy access to dispute resolution mechanisms, which would not add additional costs onto the affected parties.

Source: OECD (2018^[23]; 2016^[24]); UNCTAD (2015^[25]).

- **Strengthen monitoring and evaluation mechanisms, while also including impact assessment studies of e-commerce programmes.** The first step in providing a better control mechanism for e-commerce is to assign a dedicated institution to grant proper oversight over e-commerce programmes and policies. With the exception of Turkey, where e-commerce is governed by a dedicated directorate within the Ministry of Trade, there are no government-appointed institutions in the region, which would be responsible solely for the adoption of e-commerce practices. For more information on data that WBT governments could consider collecting in this area, please see Annex C.

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Notes

¹ The assessment conducted by the Balkan Barometer does not cover Turkey.

² The assessment conducted by the Balkan Barometer does not cover Turkey.

³ European Territorial Cooperation.

⁴ This report uses the World Bank's classification of special economic zones (SEZ), which defines six different types of zones ranging from free trade zones, which focus largely on trade facilitation, to export-processing zones, which seek to boost exports, and enterprise zones, targeting broader regional development. For the purpose of this report, industrial and technology parks are not considered as SEZs as they do not require provision of a specific regulatory framework and/or incentives regime restricted to the enterprises operating on the pre-defined zone territory.

⁵ Date is not available for Albania, Kosovo and Montenegro.

⁶ Due to the unavailability of data, the percentage does not include data for Kosovo for 2021.



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